

24 August 2018 | 2QFY18 Results Review

Can-One Berhad

Lower contribution from associate

INVESTMENT HIGHLIGHTS


- **1HFY18 results below expectation**
- **Earnings for 1HFY18 declined by 24.7% yoy**
- **Trim net profit estimates by 4.0% to reflect lower contribution from KJCF**
- **Downgrade to NEUTRAL from BUY with lower TP of RM2.60 (previously RM2.71)**

1HFY18 results below expectation. Can-One Bhd's (Can-One) 1HFY18 net profit of RM22.6m missed our expectations, making up 35% of our full year forecast. The negative deviation was caused by lower than expected contribution from Kian Joo Can Factory (KJCF). No dividend was announced, which is within expectation.

Earnings for 1HFY18 declined by 24.7% yoy due to lower contribution from KJCF. The net profit of RM22.6m came on the back of revenue that grew 12.9% yoy to RM606.8m. However, earnings did not rise in tandem with revenue mainly due to the decrease in net profit at its 32.9%-owned Kian Joo Can Factory (KJCF). Contribution from KJCF for the quarter dropped due to higher raw material costs and the continued losses at its cartons division. That said, sales for the all the divisions at Can-One grew, namely: general cans (+4.0%yoy), food (+24.5%yoy) and international trading (+42.1%yoy).

2QFY18 net profit fell 25.3%yoy to RM11.2m mainly due to lower contribution from KJCF and lower sales and profit from the can division. Note that contribution from KJCF fell to RM1.4m from RM4.8m in 2QFY17. Meanwhile, the cans division recorded sales and PBT of RM120.7m (-7.7% yoy) and RM0.3m (-96%) respectively, but they were largely offset by the increase in the food and trading division. The decline in cans division was largely due to the rise in raw material prices.

Trim FY18F/FY19F net profit estimates by 4.0%/4.6% to reflect lower contribution from KJCF as some of its raw material prices such as aluminium prices remain elevated. Due to our adjustments, FY18F/FY19F estimates now come to RM62.5m/RM71.9m.

Downgrade to NEUTRAL (from BUY) with adjusted TP of RM2.60 (previously RM2.71). Our TP of RM2.60 is based on 8x FY18F EPS of 32.5 sen. Our valuation method of 8x PER is unchanged based on Can-One's two-year average PE band. While Can-One's prospects are improving, we expect its cans division and KJCF's performance to be lacklustre in the near-term. 

Downgrade to NEUTRAL

Adjusted Target Price (TP): RM2.60
(previously RM2.71)

RETURN STATS	
Price (23 August 2018)	RM2.50
Target Price	RM2.60
Expected Share Price Return	+4.0%
Expected Dividend Yield	+1.6%
Expected Total Return	+5.6%

STOCK INFO		
KLCI	1,810.87	
Bursa / Bloomberg	5105/ CAN MK	
Board / Sector	Industrial	
Syariah Compliant	Yes	
Issued shares (m)	192.15	
Market cap. (RM'm)	480.38	
Price over NTA	0.59	
52-wk price Range	RM2.33-RM3.30	
Beta (against KLCI)	0.72x	
3-mth Avg Daily Vol	0.07m	
3-mth Avg Daily Value	RM0.18m	
Major Shareholders (%)		
Eller Axis Sdn Bhd	23.5	
Genkho Candoz Sdn Bhd	19.9	
Sanwoi Malaysia Sdn Bhd	4.1	
Price Performance (%)	Absolute	Relative
1 month	4.2	1.4
3 months	5.9	-5.4
12 months	-24.0	-25.5

MIDF RESEARCH is a unit of MIDF AMANAH INVESTMENT BANK

Kindly refer to the last page of this publication for important disclosures

INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	886.5	928.2	1136.3	1238.2	1352.6
Pretax Profit (RM'm)	95.5	107.0	82.4	77.1	88.8
Net Profit (RM'm)	77.4	86.4	63.6	62.5	71.9
EPS (sen)	44.4	45.0	33.1	32.5	37.4
EPS growth	6%	1%	-26%	-2%	15%
PER (x)	5.6	5.6	7.6	7.7	6.7
DPS (sen)	4.0	4.0	4.0	4.0	4.0
Dividend yield (%)	1.6	1.6	1.6	1.6	1.6
Gearing (x)	0.82	0.64	0.63	0.69	0.72
ROE (%)	11.7	11.5	8.0	7.9	9.1
ROA (%)	5.8	6.2	4.2	3.9	4.4
NTA per share (RM)	3.78	3.89	4.12	4.09	4.11
Price to NTA (x)	0.66	0.64	0.61	0.61	0.61

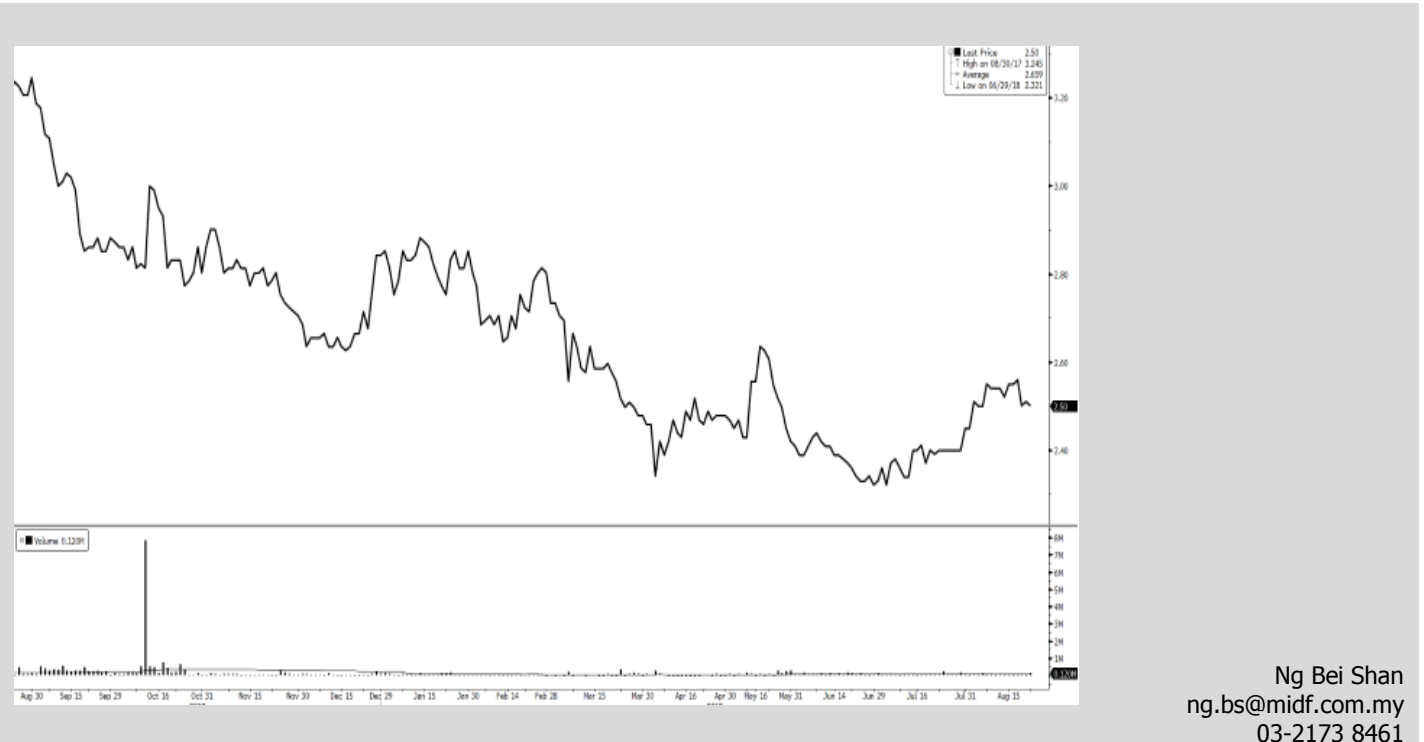
Source: Company, MIDF Research

CAN-ONE: 2QFY18 Results Summary

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative		Comments
	2QFY18	YoY	QoQ	FY18	YoY	
Revenue (RM'm)	296.4	7.2%	-4.5%	606.8	12.9%	Driven by higher sales from the food and trading divisions
Gross profit (RM'm)	35.0	23.3%	4.7%	68.4	13.9%	Raw material prices for food segment eased
EBIT (RM'm)	21.7	11.5%	20.7%	39.7	2.9%	
Pretax Profit (RM'm)	17.4	-9.3%	8.8%	33.3	-14.4%	Contribution from KJCF declined
Net Profit (RM'm)	11.2	-25.3%	-1.9%	22.6	-24.7%	
EPS (sen)	5.8	-25.3%	-1.9%	11.8	-24.7%	
Net DPS (sen)	0.0	N.M.	N.M.	0.0	N.M.	
Margins						
EBIT (%/ ppt)	7.3	0.3ppt	1.5ppt	6.5	-0.6ppt	
Pretax margin (%/ ppt)	5.9	-1.1ppt	0.7ppt	5.5	-1.8ppt	

Source: Company, MIDF Research

DAILY PRICE CHART



Source: Bloomberg

Ng Bei Shan
ng.bs@midf.com.my
03-2173 8461

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X) pursuant to the Mid and Small Cap Research Scheme ("MidS") administered by Bursa Malaysia Berhad. This report has been produced independent of any influence from Bursa Malaysia Berhad or the subject company. Bursa Malaysia Berhad and its group of companies disclaim any and all liability, howsoever arising, out of or in relation to the administration of MidS and/or this report. It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.